

Financial Statements

**Shiawassee County Community
Mental Health Authority**

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Shiawassee County Community Mental Health	County Shiawassee
Audit Date 9/30/04	Opinion Date 2/4/05	Date Accountant Report Submitted to State: 3/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
		ZIP 48801	
Accountant Signature <i>Roslund, Prestage & Company P.C.</i>			Date 3/22/05

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INDEPENDENT AUDITOR'S REPORT

Shiawassee County Community Mental Health Authority
Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 4, 2005, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-VII and the budgetary comparison information on pages 29-30 are not a required part of the basic financial statements but is supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 4, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

This section of the Shiawassee County Community Mental Health Authority (The Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal 2004, the source of Medicaid revenue remained the same. The Authority continues to affiliate with Bay Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola and Shiawassee counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state as in years prior to fiscal 2003. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

The State general fund revenue was split in fiscal 2004 creating funding for the Adult Benefits Waiver program. This program was established by the State through a waiver from the Federal Center for Medicare and Medicaid Services which established an alternative to the Medicaid program. The Adults Benefit Waiver includes as an expansion population consisting of adults aged 18 through 64 at or below 135% of the federal poverty level who are currently uninsured. This program allows the state to leverage General Fund dollars to provide some form of health coverage to more Michigan residents.

In fiscal 2004 the Shiawassee County Community Mental Health Services Board became a Community Mental Health Authority. This was accomplished through cooperation with Shiawassee County Officials and results in the creation of a new and legally separate governmental entity. Authority status will provide opportunities to improve the quality and enhance the effectiveness of services to County residents.

The basic financial statements contained in this annual financial report are presented in comparison to the prior years. This will help provide a context for the reader and assist in understanding the financial position of the Authority.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are agency-wide financial statements and fund financial statements.

Agency-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the agency-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an agency-wide basis as of September 30, 2004, 2003 and 2002.

Summary of Net Assets

As of September 30, 2003 and 2002

(In \$000s)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Assets</u>			
Current assets	\$ 5,178	\$ 4,585	\$ 5,391
Restricted assets	760	588	273
Capital assets	421	495	440
Total assets	<u>6,359</u>	<u>5,668</u>	<u>6,104</u>
<u>Liabilities</u>			
Current liabilities	2,314	1,860	2,194
Noncurrent liabilities	344	382	165
Total liabilities	<u>2,658</u>	<u>2,242</u>	<u>2,359</u>
<u>Net Assets</u>			
Investment in capital assets	543	270	440
Restricted for capital purposes	130	153	-
Restricted for risk management	204	189	108
Unrestricted	2,825	2,814	3,197
Total net assets	<u>\$ 3,701</u>	<u>\$ 3,426</u>	<u>\$ 3,745</u>
Current Position	2,864	2,725	3,197

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$2.8 million, an increase of \$139 thousand or 5.1%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current assets include \$1,497,000 (FY03 \$575 thousand and FY04 \$922 thousand) of additional Medicaid funding for fiscal 2003 and 2004 from the PIHP that is in

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

addition to what would have otherwise been earned. This additional funding was made available by the affiliation to fund an expansion of Medicaid supports and services in the Shiawassee county local service area and one time expenditures to associated with converting to Authority status.

Also at year-end, \$220 thousand of state general fund formula funding remained unspent and therefore \$82 thousand will be carried forward as deferred revenue into fiscal 2005 and \$138 will be lapsed back to the State. The reason for this lapse of funds was a shift in consumer mix in the latter part of the year that caused more Medicaid funding and less General Fund funding to be used to cover Authority expenditures.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$760 thousand have increased by \$172 thousand or 129%.

Included in this category are assets restricted for capital purposes or funded depreciation. These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2004, the Authority fully funded its annual depreciation expense of \$272 thousand.

The assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. Amounts abated or reduced to this account in the current year were \$31 thousand, net of interest earnings. At year-end, the balance was \$129 thousand and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal 2004, capital assets having an original book value of \$2.39 million were recorded, net of restated accumulated depreciation of \$2.16 million, for a beginning net book value of \$495 thousand.

In fiscal 2004, \$202 thousand was expended for capital acquisitions. These acquisitions included vehicles, office equipment and leasehold improvements. There were disposals of \$123 thousand of assets. Depreciation expense on previously existing and newly acquired capital assets was \$272 thousand. The net change in capital assets was an increase of \$80 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 17% of the original book value. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

Noncurrent liabilities consist of long-term debt related to the acquisition of capital assets (new capital lease liability) and the liability for compensated absences. Principal payments for the year were \$95 thousand. The liability for compensated absences includes vested paid time off or PTO.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$2.817 million, an increase of \$3 thousand or 0.10% for the year. Unrestricted net assets were 44.3% of total assets, down 5.3% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an agency-wide basis for the years ended September 30, 2004, 2003 and 2002.

Summary of Activities

For the years ended September 30, 2003 and 2002

(In \$000s)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Revenue</u>			
Medicaid specialty supports and services	\$ 9,453	\$ 8,725	\$ 7,997
State general fund priority populations	1,489	1,902	2,098
Adult Benefits Waiver program	286		
Program service revenue	348	326	361
Grants and earned contracts	146	141	158
County appropriation	200	254	371
Interest income	32	46	89
Other local income	50	71	16
Total revenue	<u>12,004</u>	<u>11,465</u>	<u>11,090</u>
<u>Expense</u>			
Personnel expense	7,574	7,103	6,799
Operating expense	3,701	3,756	4,046
Local funds contributed to State	164	164	164
Interest expense	20	31	-
Depreciation	272	270	216
Total expense	<u>11,731</u>	<u>11,324</u>	<u>11,224</u>
Excess of revenue over expense	273	141	(134)
Transfer to Affiliate	-	(460)	-
Change in net assets	<u>\$ 273</u>	<u>\$ (319)</u>	<u>\$ (134)</u>

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

Excess of revenue over expenses from activities for the current year was \$273 thousand or 2.3% of revenue. This is an increase of \$132 thousand from the prior year surplus of \$141 thousand.

Revenue for the year was \$12 million, an increase of \$539 thousand or 4.7% from the prior year.

Medicaid specialty supports and services revenue represents 78.7% of total revenue and increased \$728 thousand or 8.3% compared to the prior year. This increase is attributed to a significant increase in the number of Medicaid eligible persons. As previously discussed, the source of Medicaid specialty supports and service revenues transferred from MDCH to a subcontract with the PIHP in fiscal 2003 where it remained in fiscal 2004. Also, as previously discussed \$933 thousand of the increase was additional funding provided to the Authority by the PIHP affiliation. This subcontract is on a net cost not to exceed basis.

State general fund priority population revenue (formula funding) represents 12.4% of total revenue and decreased \$413 thousand or 21.7% compared to the prior year. A portion of the decrease is associated with the creation of the Adult Benefits Waiver program. This program was funded by a converting \$286 thousand of General Funds to ABW funds. The General Fund revenue is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There were \$81.5 thousand of current year funds deferred to next year and \$138 thousand lapse of state general funds to MDCH in the current year.

Adults Benefit Waiver (ABW) as noted above is a carve out of General Fund revenue in the current year. Of note is that any unspent balance of the ABW allocation becomes local funds. ABW represents 2.3% of total revenue.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 2.9% of total revenue and have decreased \$22 thousand or 6.7% from the prior year.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1.2% of total revenue and have increased \$5 thousand or 3.5% from the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2.3% of revenue and have decreased \$89 thousand or 24% from the prior year.

Total expense of \$11.7 million has increased \$407 thousand or 3.6% compared to the prior year. Personnel expense is 64.5% of total expense and has increased \$471 thousand or 6.6%. Operating expense is 31.5% of total expense and has decreased \$55 thousand or 1.5%.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2004

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look good. Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures.

Within the affiliation, and in particular at the Authority, emphasis will be placed on ensuring the service delivery system is providing *Best Value* to consumers and stakeholders. This will become more important as demand for service increases and funding remains constant or decreasing. Alternatives for obtaining Best Value may include either directly providing services or by purchasing the services competitively from the private sector or some combination of the two. Dramatic changes are possible in the next year in terms of organizational structure and service delivery.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$3,197,452	\$3,988,729
Accounts receivable, net	136,315	77,899
Due from other governmental units	1,683,821	589,433
Prepaid expenses	160,371	75,927
Total current assets	5,177,959	4,731,988
Noncurrent assets		
Cash and cash equivalents - restricted	760,089	441,147
Capital assets - depreciable, net	421,195	495,038
Total noncurrent assets	1,181,284	936,185
Total assets	6,359,243	5,668,173
Liabilities		
Current liabilities		
Accounts payable	582,782	644,887
Deferred revenue	184,363	81,782
Due to other governmental units	942,110	819,644
Accrued wages and other payroll liabilities	508,891	224,526
Current portion of capital lease	95,805	88,812
Noncurrent liabilities		
Compensated absences	222,879	165,185
Capital Lease	121,345	217,150
Total liabilities	2,658,175	2,241,986
Net Assets		
Invested in capital assets, net of related debt	204,045	189,076
Restricted for risk management	129,682	152,624
Restricted for capital purposes	542,571	270,217
Unrestricted	2,824,770	2,814,270
Total net assets	\$3,701,068	\$3,426,187

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$11,731,555</u>	<u>\$9,800,362</u>	<u>\$2,173,669</u>	\$242,476	\$94,236
General revenues					
Unrestricted investment earnings				31,048	44,769
Restricted investment earnings				<u>1,357</u>	<u>1,556</u>
Total general revenues and contributions				32,405	46,325
Transfers to affiliates				<u>-</u>	<u>(459,511)</u>
Change in net assets				274,881	(318,950)
Net assets - beginning of year				<u>3,426,187</u>	<u>3,745,137</u>
Net assets - end of year				<u>\$3,701,068</u>	<u>\$3,426,187</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Assets		
Current Assets		
Cash And Investments	\$3,197,452	\$3,988,729
Accounts Receivable	136,315	77,899
Due From Other Governmental Units	1,683,821	589,433
Prepaid Expenses	160,371	75,927
Cash and Cash Equivalents - Restricted	760,089	441,147
Total Assets	<u>\$5,938,048</u>	<u>\$5,173,135</u>
Liabilities		
Accounts Payable	\$582,782	\$644,887
Deferred Revenue	184,363	81,782
Due To Other Funds	129,682	152,624
Due To Other Governmental Units	942,110	819,644
Accrued Wages & Other Payroll Liabilities	508,891	224,526
Total Liabilities	<u>2,347,828</u>	<u>1,923,463</u>
Fund Balance		
Reserved For Prepaid Expenses	160,371	75,927
Reserved For Capital Purposes	542,571	270,217
Unreserved	2,887,278	2,903,528
Total Fund Balances	<u>3,590,220</u>	<u>3,249,672</u>
Total Liabilities and Fund Balances	<u>\$5,938,048</u>	<u>\$5,173,135</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total fund balance - governmental funds	\$3,590,220
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	2,469,685
Deduct: Accumulated depreciation	(2,048,490)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	129,682
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Capital lease	(217,150)
Deduct: Compensated absences	(222,879)
Net assets of governmental activities	<u><u>\$3,701,068</u></u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
REVENUES		
State Grants		
State General Fund - DCH Contract	\$1,489,405	\$1,894,997
Adult Benefit Waiver	285,680	-
MI Child	14,670	14,340
Tobacco Tax	8,376	6,670
Homeless Housing	4,441	3,329
Title XX	7,277	7,277
Total State Grants	<u>1,809,849</u>	<u>1,926,613</u>
Federal Grants		
Wraparound	87,461	92,937
PAS / ARR	31,269	30,226
Total Federal Grants	<u>118,730</u>	<u>123,163</u>
Contributions - Local Units		
County Appropriation	200,000	253,550
Total Contributions - Local Units	<u>200,000</u>	<u>253,550</u>
Charges For Services		
Medicaid - Affiliate Contract	9,452,663	8,725,104
Client And Third Party Pay	347,699	326,116
Total Charges For Services	<u>9,800,362</u>	<u>9,051,220</u>
Interest And Rents		
Interest	31,048	44,769
Other Revenue	42,960	63,975
 Total Revenues	 12,002,949	 11,463,290

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel Costs	\$7,515,821	\$7,103,046
Operating Expenditures	3,974,498	4,020,060
Capital Outlay	202,491	324,952
Total Expenditures	11,692,810	11,448,058
Excess Of Revenues Over Expenditures	310,139	15,232
Other Financing Sources (Uses)		
Proceeds From Capital Lease	6,110	324,952
Operating Transfers In (Out) - Internal Service Fund	24,299	(502,793)
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	340,548	(162,609)
Fund Balance, October 1	3,249,672	3,247,096
Prior Period Adjustment	-	165,185
Fund Balance, September 30	<u>\$3,590,220</u>	<u>\$3,249,672</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds	\$340,548
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	202,491
Deduct: Depreciation expense	(272,354)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: Principal paid on capital lease	88,812
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	1,357
Deduct: Transfers between internal service fund and general fund	(24,299)
Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues and expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	(57,694)
Deduct: Proceeds from sale of assets	(6,787)
Add: Gain on disposal of fixed assets	2,807
Change in net assets of governmental activities	<u>\$274,881</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004 AND 2003

		<u>Internal Service Fund</u>	
		<u>2004</u>	<u>2003</u>
Assets			
Due from other funds			
		<u>\$129,682</u>	<u>\$152,624</u>
Net Assets			
Restricted for risk management		<u>\$129,682</u>	<u>\$152,624</u>
Total Liabilities And Net Assets		<u>\$129,682</u>	<u>\$152,624</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Non-Operating Revenue		
Interest Income	\$1,357	\$1,556
Operating Transfers		
Operating Transfers In - General Fund	-	502,793
Operating Transfers Out - Abatement, General Fund	(24,299)	
Operating Transfers Out - Affiliates	-	(459,511)
Net Income	(22,942)	44,838
Net Assets, Beginning of Year	152,624	107,786
Net Assets, End of Year	<u>\$129,682</u>	<u>\$152,624</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Adjustment To Reconcile Net Income To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds	\$22,942	(\$44,838)
Net Cash Provided (Used) From Operating Activities	22,942	(44,838)
Cash Flows From Investing Activities		
Non-Operating Revenue		
Interest Income	1,357	1,556
Cash Flows From Capital and Related Financing Activities		
Operating Transfers In - General Fund	-	502,793
Operating Transfers Out - Abatement, General Fund	(24,299)	
Operating Transfers Out - Affiliates	-	(459,511)
Net Increase In Cash And Cash Equivalents	-	-
Cash And Cash Equivalents, October 1	-	-
Cash And Cash Equivalents, September 30	-	-
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Shiawassee County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority’s activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Shiawassee County Community Mental Health Services Board was a component unit and an integral part of the County of Shiawassee, the oversight unit, from October 1, 2003 through March 31, 2004. The financial statements of the Board should be included in the County of Shiawassee’s comprehensive annual financial report as a special revenue fund for that period of time. The County of Shiawassee elected to create a Community Mental Health Authority effective April 1, 2004.

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Shiawassee who meet eligibility and other criteria. As the community mental health services provider for Shiawassee County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Governmental Funds

General Fund – This fund is the Authority’s primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority’s cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers’ acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority’s deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e. the current portion of interfund loans) or “advances to / from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds”. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles	3
Equipment and Furnishings	5-7
Computers	3
Buildings and Improvements	10-40
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

The Authority has established a cash reserve for capital purposes. See Note 9 for additional information.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimates. The Authority may not be billed for these until several months after the date of services. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but is not limited to, retroactive consumer eligibility or cost recovery from other third party payors.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the year ended September 30, 2004, The Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

NOTE 3 - CASH AND INVESTMENTS

At September 30th the carrying amount of the Authority's cash and cash investments are as follows:

Cash And Cash Equivalents	2004	2003
Petty Cash	\$1,670	\$1,570
Checking, Savings, & Money Market Accounts	3,240,227	3,987,159
Cert. of Deposit Restricted For Compensated Absences	173,073	170,930
Restricted For Capital Purposes	542,571	270,217
Total	\$3,957,541	\$4,429,876

At September 30, 2004 the bank balance was \$4,030,575. The difference between the bank balance and the carrying amount shown above is due to petty cash and outstanding deposits and checks. Of the bank balance, \$500,000 was covered by federal depository insurance and \$3,530,575 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash

The Authority has charged to the Department of Community Health, the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds set aside for the payment of compensated absences. The use of these funds is restricted to payment of compensated absences as they come due.

The Authority has established a reserve for capital purposes. See Note 9 for additional information.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due from third party payers, patients, and others.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units as of September 30th, consists of the following:

Due From	2004	2003
State Of Michigan – OBRA PAS/ARR	\$7,500	\$9,159
Affiliated CMH Boards - Medicaid	1,497,433	575,000
Shiawassee County	150,000	-
Other	28,888	5,274
Total	\$1,683,821	\$589,433

NOTE 6 – PREPAID EXPENSES

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2004	2003
Insurance	\$111,715	\$26,252
Rent	23,241	22,853
Dues	9,049	8,724
Maintenance Agreements	14,758	17,015
Other	1,608	1,083
Total	\$160,371	\$75,927

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

NOTE 7 – CAPITAL ASSETS

Depreciable capital assets activity for the year ended September 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Vehicles	\$871,521	\$116,896	(\$50,397)	\$938,020
Equipment & Furnishings	982,331	67,366	(72,150)	977,547
Computers	520,519	-	-	520,519
Buildings and Improvements	15,370	18,229	-	33,599
Sub-total	2,389,741	202,491	(122,547)	2,469,685
ACCUMULATED DEPR:				
Vehicles	(740,681)	(107,587)	50,397	(797,871)
Equipment & Furnishings	(912,673)	(43,687)	68,170	(888,190)
Computers	(234,434)	(118,632)	-	(353,066)
Buildings and Improvements	(6,915)	(2,448)	-	(9,363)
Sub-total	(1,894,703)	(272,354)	118,567	(2,048,490)
NET CAPITAL ASSETS	\$495,038	(\$69,863)	(\$3,980)	\$421,195

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes.

The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2004 and 2003 was \$542,571 and \$270,217, respectively.

NOTE 8 - DEFERRED REVENUE

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2004	2003
State Of Michigan - DCH Risk Authorization	\$138,363	\$6,734
County Appropriations	-	25,000
Capital Lease Proceeds	43,938	50,048
Other	2,062	-
Total	\$184,363	\$81,782

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

NOTE 9 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of September 30th, consist of the following:

Due To	2004	2003
State Of Michigan – DCH DD Center	\$79,112	\$72,378
State Of Michigan – DCH Inpatient/Residential	138,107	146,285
Group Homes	227,196	102,023
AIS Overpayment	497,695	497,695
Other	-	1,263
Total	\$942,110	\$819,644

NOTE 10 - ACCRUED WAGES AND OTHER PAYROLL LIABILITIES

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

NOTE 11 - OPERATING LEASES

Shiawassee County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases for the next five fiscal years that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30,	Amount
2005	\$156,460
2006	156,460
2007	128,336
2008	43,934
2009	43,934
2010-2014	150,242

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

NOTE 12 - LONG-TERM DEBT

Compensated Absences

Paid Time Off (PTO)

Employees earn PTO on a monthly basis. Employees in the Non-Supervisory Bargaining Unit are able to accumulate and carry forward 240 hours of PTO. Employees in the Supervisory Bargaining Unit, or who are not represented, are able to accumulate and carry forward 480 hours of PTO. All employees are able to be paid up to 120 hours of PTO per calendar year. Any accrued PTO is paid out upon termination of employment.

The accrued compensated absences liability at September 30, 2004 and 2003 was \$222,879 and \$165,185, respectively.

Capital Lease

On November 27, 2002 the Authority entered into a lease agreement with Team Financial Group for the purpose of financing the purchase and installation of computer hardware and software as well as training and support services during the life of the lease agreement. The total amount financed was \$375,000 and the terms call for 48 monthly payments of \$9,085.

Only \$324,952 of the total proceeds was disbursed during the year ended September 30, 2003 and an additional \$6,110 was disbursed during the year ended September 30, 2004. Therefore, the remaining balance of \$43,938 was deferred until the funds are disbursed in the following year.

The changes in the above lease are as follows:

Beg. Bal. 10/01/03	Additions	Reductions	End. Bal. 9/30/04
\$305,962	-	\$88,812	\$217,150

The annual payment of principle and interest for the life of the lease is as follows:

Year Ended September 30th,	Principle and Interest Due
2005	\$109,020
2006	109,020
2007	18,170

NOTE 13 - NET ASSETS

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

NOTE 14 – COMPLIANCE AUDITS

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

NOTE 15 – FUND BALANCE RESERVES

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 16 – PENSION PLAN

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

Prior to August 8, 1997, the Authority offered one defined benefit plan to all regular full and part time employees with the Municipal Employees Retirement System. The Plan provided a C-2 (B-1) benefit, which is defined as a 2% factor of final average compensation multiplied by credited service payable until attainment of the age at which unreduced Social Security benefits are available (age 65 for normal retirement). Upon attainment of this age, the benefit reverts to a 1.7% multiplier factor. The plan provided for normal retirement at age 60 with ten years of service credit.

Early retirement was available to employees who were 50 years of age with 25 years of service, or 55 years of age with 15 years of service. If early retirement was selected, the full retirement benefit was reduced by $\frac{1}{2}$ of 1% for every month the employee was under age 60, unless the Authority adopted a resolution to waive the reduction in retirement benefits.

Effective August 8, 1997, the Authority approved an additional plan in the Municipal Employees Retirement System for Supervisory Bargaining Unit employees which are comprised of all managerial and senior administrative staff. The plan provides a B-2 benefit, which is defined as a 2% factor of final average compensation multiplied by the credited service payable for the entire retirement period. The definitions of normal and early retirement remain the same as those noted above.

Effective October 30, 1997, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit plan. Instead of requiring ten years of vesting to be eligible for benefits, the plan now requires six years of service for benefit eligibility. The plan definitions for ages of normal and early retirement continue to remain the same. Required credited years of service also remain the same for the employees opting early retirement.

Effective September 25, 2000, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit Plan. Instead of C-2 (B-1) V6, the plan is B-2 V6 for employees hired on or before September 25, 2000 and B-2 V10 for employees hired after September 25, 2000.

The pension expense for the year ending September 30, 2004 and 2003 was \$398,900 and \$366,360, respectively. This represents an actuarially determined charge for the Authority's pension costs. The Authority has no additional liability beyond these contributions.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

The following information is for the County of Shiawassee.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$29,444,186
Terminated employees not yet receiving benefits	4,167,334
Non-vested terminated employees	37,522
Current employees-	
Accumulated employee contributions including	
Allocated investment income	904,355
Employer financed	<u>37,973,505</u>
Total Actuarial Accrued Liability	\$72,526,902
Net Assets Available for Benefits At Actuarial Value	<u>49,624,765</u>
(Market Value is \$45,312,757)	

Unfunded (Overfunded) Actuarial Accrued Liability	\$22,902,137
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GASB 27 INFORMATION (as of 12/31/03)

Fiscal Year Beginning	January 1, 2005
Annual Required Contributions (ARC)	\$2,975,040
Amortization Factor Used – Underfunded Liabilities (30 years)	.053632
Amortization Factor Used – Underfunded Liabilities (26 years)	.058519
Amortization Factor Used – Overfunded Liabilities (10 years)	.119963

NOTE 17 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority has purchased commercial insurance from independent insurance providers for professional liability. Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

The Authority also participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$15,000,000 for liability and \$1,500,000 for vehicle physical damage. The contribution made by the Authority to the MMRMA was \$63,060 for the fiscal year ended September 30, 2004.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

NOTE 18 – POST-RETIREMENT BENEFITS

The Mental Health Authority provides post-retirement health care benefits to all employees who retire at age 65 and who are vested in the employer's retirement plan under the Municipal Employees Retirement System. A \$275 deductible is to be paid by the retired employee. The benefits are funded on a pay-as-you-go basis.

NOTE 19 – CONTINGENT LIABILITIES

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

Depreciation expense was calculated in accordance with accounting principles generally accepted in the United States of America (GAAP), including, as required, depreciation on the restated value of capital assets in existence as of the implementation date of GASB No. 34, over their remaining useful lives. However, based on assertions made in other CMH audits, it is expected that State auditors will assert that depreciation on capital assets purchased prior to October 1, 2002 (pre-existing assets) is not allowable. The assertion in those cases has yet to be fully adjudicated or resolved. The Authority expects to be challenged by the Michigan Department of Community Health and intends to defend its position vigorously. The Authority contends that such treatment as asserted by State auditors is not in accordance with the Michigan Mental Health Code.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

To further support and protect its position, the Authority has established and subsequently funded a reserve for capital purposes (also known as funded depreciation) in accordance with the Michigan Mental Health Code. If depreciation expense on pre-existing capital assets is ultimately disallowed, an equivalent amount that was funded to the reserve for capital purposes will revert to unrestricted fund balance.

Portions of these funds will become available for community reinvestment as Medicaid savings, be treated as deferred revenue and made available for the next year as State General Fund carry forward funding, or possibly be lapsed to the State of Michigan, depending on the nature of ultimate resolution. Thus, the potential exposure created by this issue has been covered by funding the reserve for capital purposes.

Shiawassee County Community Mental Health Authority
Notes To The Financial Statements

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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
REVENUES				
State Grants				
State General Fund - DCH Contract	\$1,959,800	\$1,622,000	\$1,489,405	(\$132,595)
Adult Benefit Waiver	-	286,000	285,680	(320)
MI Child	14,400	14,000	14,670	670
Tobacco Tax	-	6,000	8,376	2,376
Homeless Housing	1,700	4,500	4,441	(59)
Title XX	7,277	7,277	7,277	-
Total State Grants	<u>1,983,177</u>	<u>1,939,777</u>	<u>1,809,849</u>	<u>(129,928)</u>
Federal Grants				
Wraparound	87,000	87,000	87,461	461
PAS / ARR	43,700	31,000	31,269	269
Total Federal Grants	<u>130,700</u>	<u>118,000</u>	<u>118,730</u>	<u>730</u>
Contributions - Local Units				
County Appropriations	211,900	200,000	200,000	-
Total Contributions - Local Units	<u>211,900</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Charges For Services				
Medicaid - Affiliate Contract	8,282,790	9,583,000	9,452,663	(130,337)
Client And Third Party Pay	353,931	278,675	347,699	69,024
Total Charges For Services	<u>8,636,721</u>	<u>9,861,675</u>	<u>9,800,362</u>	<u>(61,313)</u>
Interest And Rents				
Interest	40,000	30,000	31,048	1,048
Other Revenue	23,750	36,000	42,960	6,960
Total Revenues	<u>11,026,248</u>	<u>12,185,452</u>	<u>12,002,949</u>	<u>(182,503)</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDING SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel Costs	\$6,841,897	\$7,607,162	\$7,515,821	\$91,341
Operating Expenditures	4,174,996	4,400,372	3,974,498	425,874
Capital Outlay	-	-	202,491	(202,491)
Total Expenditures	<u>11,016,893</u>	<u>12,007,534</u>	<u>11,692,810</u>	<u>314,724</u>
Excess Of Revenues Over Expenditures	9,355	177,918	310,139	132,221
Other Financing Sources (Uses)				
Operating Transfers In - Internal Service Fund	-	-	24,299	24,299
Operating Transfers In - Proceeds From Capital Lease	-	-	6,110	6,110
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	9,355	177,918	340,548	162,630
Fund Balance, October 1	<u>3,249,672</u>	<u>3,249,672</u>	<u>3,249,672</u>	<u>-</u>
Fund Balance, September 30	<u><u>\$3,259,027</u></u>	<u><u>\$3,427,590</u></u>	<u><u>\$3,590,220</u></u>	<u><u>\$162,630</u></u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Personnel Costs		
Salaries And Wages	\$5,186,137	\$5,164,252
Fringe Benefits	<u>2,329,684</u>	<u>1,938,794</u>
Total Personnel Expenditures	<u>\$7,515,821</u>	<u>\$7,103,046</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
Operating Expenditures		
Advertising	\$4,965	\$5,850
Books and Publications	2,329	3,574
Board Per Diem	10,829	10,875
Communications	58,317	77,653
Conferences	21,220	9,811
Contracted Services and Professional Fees	825,659	705,089
Consumer Activities & Services	10,921	9,498
Consumer Transportation	1,161	-
Clinical Programming Cost	25,888	29,738
Drugs / Pharmacy	8,891	1,775
Dues	23,439	10,220
Food and Consumables	6,618	9,739
Guardianships	1,484	1,250
Insurance and Bonds	72,619	72,175
Janitorial	9,515	10,119
Legal, Accounting, and Auditing	33,227	66,690
Medical Supplies	15,303	8,007
Miscellaneous	1,947	2,689
Mobile Phones	15,470	15,921
Local Fund Contribution	163,740	163,739
Office Supplies	48,925	52,486
Office Visits/Lab Cost - Consumers	6,943	3,524
Postage	11,867	9,128
Printing and Microfilm	1,544	1,656
Recruitment	8,621	5,129
Rent - Buildings	353,366	340,704
Rent - Equipment	110,267	101,900
Repairs and Maintenance - Building	46,804	62,232
Repairs and Maintenance - Equipment	54,827	46,839
Residential Group Home Providers	1,149,986	1,113,337
Small Equipment and Furniture	11,788	21,126
Staff Physicals	4,502	5,012
State/Local Inpatient	652,094	840,301
Temporary Labor	35,896	38,681
Training	6,294	4,075
Travel - Board	4,275	3,761
Travel - Staff	28,129	35,277
Utilities	52,629	61,944
Vehicle Gas & Oil	29,883	25,865
Vehicle Repairs & Maintenance	42,316	32,671
Total Operating Expenditures	\$3,974,498	\$4,020,060

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Shiawassee County Community Mental Health Services Authority
Owosso, Michigan

We have audited the financial statements of the Shiawassee County Community Mental Health Services Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated February 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shiawassee County Community Mental Health Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee County Community Mental Health Services Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters involving the internal control over financial reporting that we have reported to management of Shiawassee County Community Mental Health Services Authority in a separate letter dated February 4, 2005.

This report is intended for the information of the audit committee, management, others within the organization, Authority of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.
Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 4, 2005



MANAGEMENT LETTER

Shiawassee County Community Mental Health Authority
Owosso, Michigan

In planning and performing our audit of the financial statements for Shiawassee County Community Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated February 4, 2005 on the financial statements of Shiawassee County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the accounting and administrative staff for their support and assistance during our audit.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 4, 2005

Shiawassee County Community Mental Health Authority
Management Letter

Medicaid Redistribution Receivable

During our review of receivables we found that the Medicaid Redistribution receivable from the hub board for the prior fiscal year (\$575,000) and the current fiscal year (\$922,000) has not yet been received as of the completion of our fieldwork.

We recommend that management investigate all significant receivables that have been outstanding for more than 90 days to determine what, if any, steps can be taken to assure collection. Policies and procedures regarding receivables should be reviewed and, if necessary, modified to assure that old outstanding receivables are identified and investigated in a timely manner.

Depreciation Schedule

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that the Board invest in a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

Fraud Risk Assessment

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Shiawassee County Community Mental Health Authority
Management Letter

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Shiawassee County Community Mental Health Authority (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.

Shiawassee County Community Mental Health Authority
Management Letter

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.

Shiawassee County Community Mental Health Authority
Management Letter

- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.